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Treasury Secretary Paul H. O'Neill
Remarks to the U.S. Chamber of Commerce
“Rebuilding Trust in Corporate America”
Washington, DC

Good afternoon. Thank you for your kind introduction, Tom (Donahue, CEO of U.S. Chamber of Commerce).

The United States economy today is the strongest and most resilient in the world, and the strongest and most resilient of any economy in history.

Our economy surged at a 6.1 percent annual rate in the first quarter, the fastest pace in more than two years, and a phenomenal performance compared to forecasters' expectations. Although the second quarter is not likely to match the first, there are continuing signs of strength in this recovery. New home sales set a record level in May, consumer spending remains high, and there is evidence that non-defense capital goods investment rose in the second quarter, ending nearly a year and a half of declines.

The fundamentals are sound, with inflation low and productivity booming. Business profits are up, real wages are growing, and industrial production is increasing. In June, the number of new jobs went up for the second month in a row. Thanks in part to low interest rates and President Bush's tax cuts, this recovery is well underway. I continue to believe that by the end of this year we will see 3 to 3-1/2 percent growth.

Sometimes we forget, especially in Washington, that the foundation beneath our economic strength is the everyday hard work of business owners and employees throughout this country, many of whom are represented in this Chamber of Commerce. I'm talking about the kind of people who get up at the crack of dawn, unlock the store, and spend their days smiling at customers, (even when they'd rather throttle them). People who spend their nights and weekends minding the books, so they can pay their bills, make their payroll, and get their kids through school. People who have built this country, one product, one sale, and one job at a time.

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These Americans, whether they work in a store, a factory, a farm, or an office tower, are investing their time in an honest day's work, building a future for themselves, their families and this country. And when they choose to put their hard-earned wages into shares of public companies, they are investing in this country again.

They are entrusting their savings – the down payment for a first home, the money for an engagement ring and a wedding, college tuition, funds for a family vacation, their retirement, in short, their financial freedom and independence – to corporate managers, whom they expect to be just as honest and straightforward. Our citizens trust that public companies will respect the savings in their care, working to maximize their return by creating real value.

Through much of the past decade, that trust paid well. New technologies boosted productivity, profits grew and the stock market soared. But amidst that exuberance, some people seem to have started believing that anything goes.

We've learned recently that certain corporate leaders, abetted by their auditors, violated the public's trust. In their greed and their gluttony, these crooks sacrificed the retirement years of teachers, truck drivers, nurses and farmers to enrich themselves.

Just as bad, they have disgraced the institutions that have allowed our nation to prosper, and brought shame on freedom itself.

I am furious. President Bush is furious. And we are going to make sure these thieves face consequences. These guys are not going to spend those stolen retirement years on balmy islands, swatting golf balls. The President has said that CEOs who cook the books will forfeit their ill-gotten gains, and they will go to jail.

Since the earliest days of these corporate scandals, President Bush has been advancing a reform agenda to find and punish corruption; hold corporate officers accountable; protect small investors; clean up accounting practices; strengthen the corporate audit system; and provide honest and accurate information to investors. The President's ten-point plan to improve corporate governance and disclosure, which he proposed on March 7, is now coming into place, thanks to aggressive leadership by Harvey Pitt and the SEC.

The plan requires that chief executives and chief financial officers personally certify the accuracy, timeliness and completeness of their companies' public disclosures and financial statements. In fact, Harvey Pitt has already written letters to the top 1,000 CEOs, requesting that they do just that – personally review and recertify their recent financial statements.

With the highest position in a company comes the highest responsibility, both to know what is going on in the firm, and to give investors an honest and accurate picture of the company's situation. Outside auditors should have to make the same independent certifications.

The SEC has also issued new rules to keep investors better informed. Companies will have to illustrate the impact of their accounting choices on their financial statements, and they will inform investors more quickly and clearly about significant events. The SEC has already put teeth in its policy that technical GAAP compliance is not the same as sufficient disclosure.

And for those who don't live up to the standards of honesty and accuracy, the President is insisting on stiff punishment, doubling the penalties for financial fraud. Under today's laws, a kid caught with a half a gram of marijuana gets a stiffer sentence than a corporate chief who steals millions from investors. That's not right.

The President requested months ago that Congress provide major increases in budget and personnel for the SEC, so our law enforcement officers can get the job done. Already, the SEC has doubled the rate of executive disgorgement cases this year over the rate in 2001. Working through the courts, the SEC has also stepped up bans of corrupt directors and officers, preventing them from serving in other companies.

Finally, the President made strong recommendations to align compensation plans, including stock options, with the long-term interest of stockholders. On television these days we see executives at scandal-ridden companies who pumped up share prices and cashed out their options before the axe fell. And then we see faithful employees and duped shareholders and pension funds left behind to gape at their losses. That's wrong, and it must not continue.

When I was at Alcoa I never sold a single share of Alcoa stock. I wanted my financial success and the company's success inextricably linked. Other executives should do the same. Stock options are not a short-term reward, they are a long-term incentive to do the right thing.

The President has called on the nation's stock markets to require that listed companies receive shareholder approval of all stock option plans. And he called on CEOs to explain how their compensation packages are in the best interest of shareholders. Well-informed shareholders, not the government, are in the right position to decide what compensation plan will best align management interests with the long-term interest of the shareholders.

We are improving the system on every front. The SEC's proposals are moving forward. The stock markets are beefing up corporate governance requirements for listed companies. And Congress is developing legislation to ensure corporations and their auditors meet standards for accuracy, honesty and timeliness. The House has already acted, and the Senate is working at this very moment.

We support the intentions of the Senate bill, but we have reservations as well. In particular, contrary to the President's request, the Senate bill does not provide the SEC with the authority to bar individuals who engage in serious misconduct from serving as officers and directors of any public company. The SEC needs this new authority to punish those that have proven themselves unworthy to serve shareholders.

We are also concerned that the Senate proposal gives the power to enforce securities laws to an unaccountable private body, which is not consistent with our sense of responsible law enforcement. Moreover, this new "accounting oversight board" would be redundant and competitive with the SEC. We do not need that kind of bureaucratic confusion undercutting enforcement efforts, and letting villains off the hook.

Instead, the Administration believes that a two-tiered regulatory framework will best protect investors. The SEC recently suggested an independent accounting oversight board to set, oversee, and enforce professional audit and ethics standards. The SEC itself would continue to investigate and enforce violations of the securities laws. These clear lines of authority will ensure that the Accounting Board and SEC are both fully accountable.

I'm eager to work with the Congress to get legislation to the President before the August recess to restore accountability and integrity to our corporate governance and disclosure system. But new laws alone cannot make a perfect world. We have laws against bank robbery, but we still have bank robbers. We need the other institutions of our free market system to reinforce the call for higher standards. That is why I applaud actions by private organizations, such as the New York Stock Exchange and the National Association of Securities Dealers, to create better rules for their membership, independent of our work in Washington.

Most of all, I call on true corporate leaders, those who cherish their freedom and the success our system has allowed them, to stand up and defend the values of honesty, integrity, and accountability. I believe that most executives accept and live up to the principle that with the big job comes big responsibilities. Leadership means more than keeping your head down and following the rules. It means instilling a value system that runs throughout your company.

Most of the things being proposed for regulation and legislation are things that you and I and most of the CEOs we know have practiced for years, because they are common sense and they are the right things to do.

No government can compensate for a lack of an articulated value structure from the top. Face it: the 90s are over. Now is the time for sober virtue. Investors are demanding information, and because our system works, they are going to get it. Companies that take steps now to examine their practices – from disclosure, to accounting, to compensation – will ensure that they meet shareholder expectations.

By getting accurate, timely, plain-English information to investors and employees they will earn the public's trust anew. People across this nation will again feel confident that they can safely invest their life-savings in American business. And acting individually to do what's right, corporate leaders will collectively strengthen the U.S. economic system.

Our economic system remains the envy of the world. Together the President's proposed reforms and leadership in the corporate world will make that system even better.

Thank you.